

Of Money
by David Hume(1752)

Money is not, properly speaking, one of the subjects of commerce; but only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is none of the wheels of trade: It is the oil which renders the motion of the wheels more smooth and easy. If we consider any one kingdom by itself, it is evident, that the greater or less plenty of money is of no consequence; since the prices of commodities are always proportioned to the plenty of money, and a crown in HARRY VII's time served the same purpose as a pound does at present. It is only the public which draws any advantage from the greater plenty of money; and that only in its wars and negotiations with foreign states. And this is the reason, why all rich and trading countries from CARTHAGE to GREAT BRITAIN and HOLLAND, have employed mercenary troops, which they hired from their poorer neighbours. Were they to make use of their native subjects, they would find less advantage from their superior riches, and from their great plenty of gold and silver; since the pay of all their servants must rise in proportion to the public opulence. Our small army of 20,000 men is maintained at as great expence as a FRENCH army twice as numerous. The ENGLISH fleet, during the late war, required as much money to support it as all the ROMAN legions, which kept the whole world in subjection, during the time of the emperors.

The greater number of people and their greater industry are serviceable in all cases; at home and abroad, in private, and in public. But the greater plenty of money, is very limited in its use, and may even sometimes be a loss to a nation in its commerce with foreigners.

There seems to be a happy concurrence of causes in human affairs, which checks the growth of trade and riches, and hinders them from being confined entirely to one people; as might naturally at first be dreaded from the advantages of an established commerce. Where one nation has gotten the start of another in trade, it is very difficult for the latter to regain the ground it has lost; because of the superior industry and skill of the former, and the greater stocks, of which its merchants are possessed, and which enable them to trade on so much smaller profits. But these advantages are compensated, in some measure, by the low price of labour in every nation which has not an extensive commerce, and does not much abound in gold and silver. Manufactures, therefore gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and labour; till they have enriched these also, and are again banished by the same causes. And, in general, we may observe, that the dearness of every thing, from plenty of money, is a disadvantage, which attends an established commerce, and sets bounds to it in every country, by enabling the poorer states to undersell the richer in all foreign markets.

This has made me entertain a doubt concerning the benefit of banks and paper-credit, which are so generally esteemed advantageous to every nation. That provisions and labour should become dear by the encrease of trade and money, is, in many respects, an inconvenience; but an inconvenience that is unavoidable, and the effect of that public wealth and prosperity which are the end of all our wishes. It is compensated by the advantages, which we reap from the possession of these precious metals, and the weight, which they give the nation in all foreign wars and negotiations. But there appears no reason for encreasing that inconvenience by a counterfeit money, which foreigners will not accept of in any payment, and which any great disorder in the state will reduce to nothing. There are, it is

true, many people in every rich state, who having large sums of money, would prefer paper with good security; as being of more easy transport and more safe custody. If the public provide not a bank, private bankers will take advantage of this circumstance; as the goldsmiths formerly did in LONDON, or as the bankers do at present in DUBLIN: And therefore it is better, it may be thought, that a public company should enjoy the benefit of that paper-credit, which always will have place in every opulent kingdom. But to endeavour artificially to encrease such a credit, can never be the interest of any trading nation; but must lay them under disadvantages, by encreasing money beyond its natural proportion to labour and commodities, and thereby heightening their price to the merchant and manufacturer. And in this view, it must be allowed, that no bank could be more advantageous, than such a one as locked up all the money it received, and never augmented the circulating coin, as is usual, by returning part of its treasure into commerce. A public bank, by this expedient, might cut off much of the dealings of private bankers and money-jobbers; and though the state bore the charge of salaries to the directors and tellers of this bank (for, according to the preceding supposition, it would have no profit from its dealings), the national advantage, resulting from the low price of labour and the destruction of paper-credit, would be a sufficient compensation. Not to mention, that so large a sum, lying ready at command, would be a convenience in times of great public danger and distress; and what part of it was used might be replaced at leisure, when peace and tranquillity was restored to the nation.

But of this subject of paper credit we shall treat more largely hereafter. And I shall finish this essay on money, by proposing and explaining two observations, which may, perhaps, serve to employ the thoughts of our speculative politicians.

It was a shrewd observation of ANACHARSIS the SCYTHIAN, who had never seen money in his own country, that gold and silver seemed to him of no use to the GREEKS, but to assist them in numeration and arithmetic. It is indeed evident, that money is nothing but the representation of labour and commodities, and serves only as a method of rating or estimating them. Where coin is in greater plenty; as a greater quantity of it is required to represent the same quantity of goods; it can have no effect, either good or bad, taking a nation within itself; any more than it would make an alteration on a merchant's books, if, instead of the ARABIAN method of notation, which requires few characters, he should make use of the ROMAN, which requires a great many. Nay, the greater quantity of money, like the ROMAN characters, is rather inconvenient, and requires greater trouble both to keep and transport it. But notwithstanding this conclusion, which must be allowed just, it is certain, that, since the discovery of the mines in AMERICA, industry has encreased in all the nations of EUROPE, except in the possessors of those mines; and this may justly be ascribed, amongst other reasons, to the encrease of gold and silver. Accordingly we find, that, in every kingdom, into which money begins to flow in greater abundance than formerly, every thing takes a new face: labour and industry gain life; the merchant becomes more enterprising, the manufacturer more diligent and skillful, and even the farmer follows his plough with greater alacrity and attention. This is not easily to be accounted for, if we consider only the influence which a greater abundance of coin has in the kingdom itself, by heightening the price of Commodities, and obliging every one to pay a greater number of these little yellow or white pieces for every thing he purchases. And as to foreign trade, it appears, that great plenty of money is rather disadvantageous, by raising the price of every kind of labour.

To account, then, for this phenomenon, we must consider, that though the high price of commodities be a necessary consequence of the encrease of gold and silver, yet it follows not

immediately upon that encrease; but some time is required before the money circulates through the whole state, and makes its effect be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom. In my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the encreasing quantity of gold and silver is favourable to industry. When any quantity of money is imported into a nation, it is not at first dispersed into many hands; but is confined to the coffers of a few persons, who immediately seek to employ it to advantage. Here are a set of manufacturers or merchants, we shall suppose, who have received returns of gold and silver for goods which they sent to CADIZ. They are thereby enabled to employ more workmen than formerly, who never dream of demanding higher wages, but are glad of employment from such good paymasters. If workmen become scarce, the manufacturer gives higher wages, but at first requires an encrease of labour; and this is willingly submitted to by the artisan, who can now eat and drink better, to compensate his additional toil and fatigue. He carries his money to market, where he, finds every thing at the same price as formerly, but returns with greater quantity and of better kinds, for the use of his family. The farmer and gardener, finding, that all their commodities are taken off, apply themselves with alacrity to the raising more; and at the same time can afford to take better and more cloths from their tradesmen, whose price is the same as formerly, and their industry only whetted by so much new gain. It is easy to trace the money in its progress through the whole commonwealth; where we shall find, that it must first quicken the diligence of every individual, before it encrease the price of labour.

And that the specie may encrease to a considerable pitch, before it have this latter effect, appears, amongst other instances, from the frequent operations of the FRENCH king on the money; where it was always found, that the augmenting of the numerary value did not produce a proportional rise of the prices, at least for some time. In the last year of LOUIS XIV, money was raised three-sevenths, but prices augmented only one. Corn in FRANCE is now sold at the same price, or for the same number of livres, it was in 1683; though silver was then at 30 livres the mark, and is now at 50. Not to mention the great addition of gold and silver, which may have come into that kingdom since the former period.

From the whole of this reasoning we may conclude, that it is of no manner of consequence, with regard to the domestic happiness of a state, whether money be in a greater or less quantity. The good policy of the magistrate consists only in keeping it, if possible, still encreasing; because, by that means, he keeps alive a spirit of industry in the nation, and encreases the stock of labour, in which consists all real power and riches. A nation, whose money decreases, is actually, at that time, weaker and more miserable than another nation, which possesses no more money, but is on the encreasing hand. This will be easily accounted for, if we consider, that the alterations in the quantity of money, either on one side or the other, are not immediately attended with proportionable alterations in the price of commodities. There is always an interval before matters be adjusted to their new situation; and this interval is as pernicious to industry, when gold and silver are diminishing, as it is advantageous when these metals are encreasing. The workman has not the same employment from the manufacturer and merchant; though he pays the same price for every thing in the market. The farmer cannot dispose of his corn and cattle; though he must pay the same rent to his landlord. The poverty, and beggary, and sloth, which must ensue, are easily foreseen.

II. The second observation which I proposed to make with regard to money, may be explained after the following manner. There are some kingdoms, and many provinces in EUROPE, (and all of them were once in the same condition) where money is so scarce, that the landlord can get none at all from his tenants; but is obliged to take his rent in kind, and either to consume it himself, or transport it to places where he may find a market. In those countries, the prince can levy few or no taxes, but in the same manner: And as he will receive small benefit from impositions so paid, it is evident that such a kingdom has little force even at home; and cannot maintain fleets and armies to the same extent, as if every part of it abounded in gold and silver. There is surely a greater disproportion between the force of GERMANY, at present, and what it was three centuries ago, than there is in its industry, people, and manufactures. The AUSTRIAN dominions in the empire are in general well peopled and well cultivated, and are of great extent; but have not a proportionable weight in the balance of EUROPE; proceeding, as is commonly supposed, from the scarcity of money. How do all these facts agree with that principle of reason, that the quantity of gold and silver is in itself altogether indifferent? According to that principle wherever a sovereign has numbers of subjects, and these have plenty of commodities, he should of course be great and powerful, and they rich and happy, independent of the greater or lesser abundance of the precious metals. These admit of divisions and subdivisions to a great extent; and where the pieces might become so small as to be in danger of being lost, it is easy to mix the gold or silver with a baser metal, as is practised in some countries of EUROPE; and by that means raise the pieces to a bulk more sensible and convenient. They still serve the same purposes of exchange, whatever their number may be, or whatever colour they may be supposed to have.

To these difficulties I answer, that the effect, here supposed to flow from scarcity of money, really arises from the manners and customs of the people; and that we mistake, as is too usual, a collateral effect for a cause. The contradiction is only apparent; but it requires some thought and reflection to discover the principles, by which we can reconcile reason to experience.

It seems a maxim almost self-evident, that the prices of every thing depend on the proportion between commodities and money, and that any considerable alteration on either has the same effect, either of heightening or lowering the price. Encrease the commodities, they become cheaper; encrease the money, they rise in their value. As, on the other hand, a diminution of the former, and that of the latter, have contrary tendencies.

It is also evident, that the prices do not so much depend on the absolute quantity of commodities and that of money, which are in a nation, as on that of the commodities, which come or may come to market, and of the money which circulates. If the coin be locked up in chests, it is the same thing with regard to prices, as if it were annihilated; if the commodities be hoarded in magazines and granaries, a like effect follows. As the money and commodities, in these cases, never meet, they cannot affect each other. Were we, at any time, to form conjectures concerning the price of provisions, the corn, which the farmer must reserve for seed and for the maintenance of himself and family, ought never to enter into the estimation. It is only the overplus, compared to the demand, that determines the value.

To apply these principles, we must consider, that, in the first and more uncultivated ages of any state, ere fancy has confounded her wants with those of nature, men, content with the produce of their own fields, or with those rude improvements which they themselves can work upon them, have little occasion for exchange, at least for money, which, by agreement, is the common measure of exchange. The wool of the farmer's own flock, spun in his own family, and wrought by a neighbouring weaver, who receives his payment in corn or wool,

suffices for furniture and cloathing. The carpenter, the smith, the mason, the tailor, are retained by wages of a like nature; and the landlord himself, dwelling in the neighbourhood, is content to receive his rent in the commodities raised by the farmer. The greater part of these he consumes at home, in rustic hospitality: The rest, perhaps, he disposes of for money to the neighbouring town, whence he draws the few materials of his expence and luxury.

But after men begin to refine on all these enjoyments, and live not always at home, nor are content with what can be raised in their neighbourhood, there is more exchange and commerce of all kinds, and more money enters into that exchange. The tradesmen will not be paid in corn; because they want something more than barely to eat. The farmer goes beyond his own parish for the commodities he purchases, and cannot always carry his commodities to the merchant who supplies him. The landlord lives in the capital, or in a foreign country; and demands his rent in gold and silver, which can easily be transported to him. Great undertakers, and manufacturers, and merchants, arise in every commodity; and these can conveniently deal in nothing but in specie. And consequently, in this situation of society, the coin enters into many more contracts, and by that means is much more employed than in the former.

The necessary effect is, that, provided the money encrease not in the nation, every thing must become much cheaper in times of industry and refinement, than in rude, uncultivated ages. It is the proportion between the circulating money, and the commodities in the market, which determines the prices. Goods, that are consumed at home, or exchanged with other goods in the neighbourhood, never come to market; they affect not in the least the current specie; with regard to it they are as if totally annihilated; and consequently this method of using them sinks the proportion on the side of the commodities, and encreases the prices. But after money enters into all contracts and sales, and is every where the measure of exchange, the same national cash has a much greater task to perform; all commodities are then in the market; the sphere of circulation is enlarged; it is the same case as if that individual sum were to serve a larger kingdom; and therefore, the proportion being here lessened on the side of the money, every thing must become cheaper, and the prices gradually fall.

By the most exact computations, that have been formed all over EUROPE, after making allowance for the alteration in the numerary value or the denomination, it is found, that the prices of all things have only risen three, or at most, four times, since the discovery of the WEST INDIES. But will any one assert, that there is not much more than four times the coin in EUROPE, that was in the fifteenth century, and the centuries preceding it? The SPANIARDS and PORTUGUESE from their mines, the ENGLISH, FRENCH, and DUTCH, by their AFRICAN trade, and by their interlopers in the WEST INDIES, bring home about six millions a year, of which not above a third goes to the EAST-INDIES. This sum alone, in ten years, would probably double the ancient stock of money in EUROPE. And no other satisfactory reason can be given, why all prices have not risen to a much more exorbitant height, except that which is derived from a change of customs and manners. Besides that more commodities are produced by additional industry, the same commodities come more to market, after men depart from their ancient simplicity of manners. And though this encrease has not been equal to that of money, it has, however, been considerable, and has preserved the proportion between coin and commodities nearer the ancient standard.

Were the question proposed, Which of these methods of living in the people, the simple or refined, is the most advantageous to the state or public? I should, without much scruple,

prefer the latter, in a view to politics at least; and should produce this as an additional reason for the encouragement of trade and manufactures.

While men live in the ancient simple manner, and supply all their necessaries from domestic industry or from the neighbourhood, the sovereign can levy no taxes in money from a considerable part of his subjects; and if he will impose on them any burthens, he must take payment in commodities, with which alone they abound; a method attended with such great and obvious inconveniencies, that they need not here be insisted on. All the money he can pretend to raise, must be from his principal cities, where alone it circulates; and these, it is evident, cannot afford him so much as the whole state could, did gold and silver circulate throughout the whole. But besides this obvious diminution of the revenue, there is another cause of the poverty of the public in such a situation. Not only the sovereign receives less money, but the same money goes not so far as in times of industry and general commerce. Every thing is dearer, where the gold and silver are supposed equal; and that because fewer commodities come to market, and the whole coin bears a higher proportion to what is to be purchased by it; whence alone the prices of every thing are fixed and determined.

Here then we may learn the fallacy of the remark, often to be met with in historians, and even in common conversation, that any particular state is weak, though fertile, populous, and well cultivated, merely because it wants money. It appears, that the want of money can never injure any state within itself: For men and commodities are the real strength of any community. It is the simple manner of living which here hurts the public, by confining the gold and silver to few hands, and preventing its universal diffusion and circulation. On the contrary, industry and refinements of all kinds incorporate it with the whole state, however small its quantity may be: They digest it into every vein, so to speak; and make it enter into every transaction and contract. No hand is entirely empty of it. And as the prices of every thing fall by that means, the sovereign has a double advantage: He may draw money by his taxes from every part of the state; and what he receives, goes farther in every purchase and payment.

We may infer, from a comparison of prices, that money is not more plentiful in CHINA, than it was in EUROPE three centuries ago: But what immense power is that empire possessed of, if we may judge by the civil and military establishment maintained by it? POLYBIUS tells us, that provisions were so cheap in ITALY during his time, that in some places the stated price for a meal at the inns was a semis a head, little more than a farthing! Yet the ROMAN power had even then subdued the whole known world. About a century before that period, the CARTHAGINIAN ambassador said, by way of raillery, that no people lived more sociably amongst themselves than the ROMANS; for that, in every entertainment, which, as foreign ministers, they received, they still observed the same plate at every table. The absolute quantity of the precious metals is a matter of great indifference. There are only two circumstances of any importance, namely, their gradual encrease, and their thorough concoction and circulation through the state; and the influence of both these circumstances has here been explained.

In the following Essay we shall see an instance of a like fallacy as that above mentioned; where a collateral effect is taken for a cause, and where a consequence is ascribed to the plenty of money; though it be really owing to a change in the manners and customs of the people.